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The effects of customer and entrepreneurial orientations on individual service performance in banking sector

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Abstract

In recent years, there has been an increasing interest in the strategic management process which aims to achieve the performance outcomes that allow firms, including banks, to be competitive over time. This new concept requires new strategic alternatives for the companies. Today, banks need more flexible and faster organization structures to respond effectively to the customers' growing various types needs in the dynamic markets. Thus, banks use more strategic alternative tools to increase their firm performance through their employees. These tools include some strategic orientations as customer and entrepreneurship orientations. In this framework, this paper aims to examine the impact of customer orientation and entrepreneurial orientation, at the level of frontline employees in banks, on individual service performance. To reach this aim a questionnaire survey is performed. The response of 346 frontline employees in banks provides the database that was analyzed using SPSS 15 program.

Keywords: Customer orientation, Entrepreneurship orientation, Individual service performance, Financial firms

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1. Introduction

Achieving strategic competitiveness is difficult in turbulent and complex markets, such as financial industry. Thus, in current rapidly globalizing world, companies use different techniques of strategic management to achieve competitive advantage. Strategic management is the conduct of drafting, implementing and evaluating cross-functional decisions that will enable an organization to achieve its long-term objectives. It is a level of managerial activity under setting goals and over tactics including some special tools like strategic orientations. These orientations involve both strategy formation called content and also strategy implementation called process (Chaffee, 1995; David, 1989). During the last decades, since Miles and Snow (1978) introduced their typology of four strategic orientations, strategic orientations such as relationship, innovation, learning, market, etc. in family owned firms have received increased attention among scholars.

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Crisis in the financial/banking industry have shown the need for sustainable and effective management strategies. Developments in this industry have been forced the banks to be more customer and entrepreneurial oriented. Entrepreneurship literature suggests marketing to be one of the pivotal predictors of business performance. During the past decade, managers and researchers have identified the importance of customer and entrepreneurial orientations for sustainable competitive advantage and superior company performance through individual service performance of their employees. Even though it's an emerging area, the literature, both in national and international, abounds of many evidences about the classifications and the positive effects of strategic orientations on business performance (e.g. Egan and Shipley, 1995; Pearce and Carland, 1996; Keskin et al., 2002; Alpan et al., 2005; Talukdar et al., 2005; Babakus et al., 2009; Yılmaz et al., 2009). But, much of what is written about strategic orientations focuses generally on manufacturing industries while underestimating the service industries such as banking, especially it's a fully neglected area in Turkish context. On the other hand, no study has been found about strategic orientations in context of frontline employees of banking industry while there are many studies on salesperson.

Banking is such an industry that the degree of flexibility of the service qualification is low, and the initiative of employees that present those services is less than other industries (Lovelock, 1996: 40-42). So one can say that banking industry is suffered from those disadvantageous in creating superior individual service performance even direct relations with customers are performed intensively. Thus, the theoretical basis of this paper is found in the contents of customer and entrepreneurship orientations in the context of individual service performance of the employees' of banking industry. In this framework, the aim of this paper is to contribute to the literature by considering customer and entrepreneurial orientations simultaneously, and to test their relationship with individual service performance in the banking sector. To reveal these relationships a questionnaire survey is conducted on large scale banks operates in Turkey.

2. Literature Review and Hypotheses

Since Miles and Snow (1978) introduced their typology of four strategic orientations, various alternative approaches to strategic orientation (including market orientation, product orientation, customer orientation, innovation orientation, relationship orientation, stakeholder orientation and interaction orientation) have emerged. Many authors (e.g. Appiah-Adu and Singh, 1998; Camelo-Ordaz et al., 2003; Day and Wensley, 1983; Deshpande et al., 1997; Gatignon and Xuereb, 1997; Kuratko and Montagno, 1998; Leskovar-Spacapan and Bastic, 2007; Manu and Sriram, 1996; Morgan and Strong, 1998, 2003; Naldi et al., 2007; Noble et al., 2002; Simpson et al., 2006; Voss and Voss, 2000;) employ the idea of strategic orientation to described the overall dominant logic that represents a firm's competitive posture based on its conceptualization of the internal and external situation and/or environment. In particular, many of the studies cited above demonstrate the positive relationship between types of strategic orientations and firm performance.

2.1. Individual Service Performance

Preceding work on service performance has focused on either organizational or individual-level dissection. However, most of them addressing organizational level, some of the researchers focused on service performance at the individual level (e.g. Barrick and Mount, 1991; Frei and McDaniel, 1998) and link individual employee personality to service performance. Gronroos (1984) noticed the importance of frontline employees. His recent study highlighted how internal and external relationship marketing can provide added value for both customers and service providers (Gronroos, 2004). Today most of the firms in service industry are recognizing that customer-oriented behaviors of their frontline employees are critical (Schneider, 1990). In other words, market concepts are implemented in service firms via individual service employees and their interactions with customers (Donavan et al., 2004). On the other hands, Saxe and Weitz (1982) suggested that customer-oriented selling is a "degree to which salespeople practice the marketing concept by trying to help their customers make purchase decisions that will satisfy customer needs." In sum, better organizational performance in service firms such as banks critically needs their frontline employees' individual service performance through their customer-oriented behaviors. Thus, in current study individual service performance is taken as a dependent performance variable.

2.2. Customer Orientation (CO)

Terms like market orientation, customer orientation, market-driven or market focus organization, have been used to describe a type of organizational orientations where customer needs are the basis for planning and designing organizational strategy (Saura et al., 2005). These concepts are critical in strategic management of a company in order to survive in today's intensive competitive atmosphere through satisfying customer needs. It's widely known that today the basic condition for surviving in the market is the concept of customer-focused management. Such a "customer centered" perspective in quality assessment stems from the effect of choices of customers in this competitive atmosphere.

Customer orientation is the set of beliefs in sales that says that customer needs and satisfaction are the priority of an organization. It focuses on dynamic interactions between the organization and customers as well as competitors in the market and its internal stakeholders. It involves a continuous improvement in business processes. It is the business seen from the point of view of its final result, that is, from the customer's point of view (Drucker, 1994). Customer orientation or the "customer is king" is a keyword of the management economics. Missing customer orientation can reduce the conversions. The causes for the lack of customer orientation lie frequently in the culture, the structure, and the processes of the enterprise. Customer orientation as strategy requires new processes and a new organizational culture. In global marketing concept, customer orientation should have a favorable impact on business unit performance, and presumably this should be true regardless of whether customer orientation is measured in terms of the perceptions of the supplier/seller or those of the customer. Most authors approach customer orientation as an element of corporate culture from vantage point of the seller. The marketer's customer orientation, as reported by customers, is related positively to business performance (Desphande et al., 1993).

According to numerous studies it's already known that firms which pursue customer oriented strategies are more likely to provide quality, contribute to customer satisfaction and attain organizational goals more efficiently and effectively than competitors. In addition, it is argued that this type of orientation plays an even more relevant role in service organizations than in other types of companies (Kelly, 1992; Kim and Cha, 2002; Saura et al., 2005). Customer orientation has been shown to have a positive impact on performance at both the company (Narver and Slater, 1990; Singh and Ranchhod, 2004) and salesperson (Sujan et al., 1994; Donovan et al., 2004; Cross, et al., 2007) levels. Customer-oriented employees derive satisfactions from pleasing external and internal customers (Donovan and Hocutt, 2002); additionally, by improving their understanding of customer needs and using this knowledge to design better products and services, customer orientation should directly impact customer satisfaction (Gustafsson et al., 2003). Customer-oriented firms thus are consistently perceived as offering higher quality physical goods and employee performance (Brady and Cronin, 2001). Similarly, if service employee behaviors are focused on long-term relationships (like high contact intensity, mutual disclosure, and cooperative intentions), and in turn favorably affect customer perception of relational service quality (Crosby et al., 1990); in that way, while service people pay more attention on customer and put the customer first, they improve their ability to provide satisfactory customer services. In literature, it is argued that this type of orientation plays an even more relevant role in service organizations than in other types of companies (Kelly, 1992; Kim and Cha, 2002). And in the article of Saura et al (2005) this argument is supported in financial industry by an empirical study. Thus, based on empirical evidences our first hypothesis is expressed as below:

H1: Customer orientation has positive effects on individual service performance.

2.3. Entrepreneurial Orientation (EO)

Entrepreneurship is regarded as the process of creating a brand new value by taking financial, physical and social risks; by devoting sufficient time and energy and, in the end, by obtaining personal satisfaction and independence. Entrepreneurship orientation, mainly represents a response of firms to future or potential market needs. The entrepreneurship orientation concept as applied to a firm has its origins in the strategy literature (Lumpkin and Dess, 1996). A basic assumption is that a firm's entrepreneurial behavior can be classified along a conceptual continuum that ranges from highly conservative to highly entrepreneurial (Barringer and Bluedorn, 1999). A firm's entrepreneurial position on this continuum describes its entrepreneurial orientation (Lumpkin and Dess, 1996), alternatively referred to as its entrepreneurial posture (Covin and Slevin, 1990), entrepreneurial style (Naman and Slevin, 1993), or corporate entrepreneurship intensity (Barringer and Bluedorn, 1999).

Generally, entrepreneurial orientation refers to the propensities, processes and behaviors that lead to entry into new or established markets with new or existing goods or services (Lumpkin and Dess, 1996). Based on various models of firm-level entrepreneurship (e.g., Covin and Slevin, 1988, 1990, 1991; Miller, 1983; Miller and Friesen, 1978; Mintzberg, 1973), Lumpkin and Dess (1996) have developed five key features that characterize a firm's entrepreneurial orientation (EO): autonomy, risk taking, innovativeness (Lumpkin ve Dess, 1996; Knight, 1997; Antoncic and Hisrich, 2001), proactiveness (Lumpkin and Dess, 1996; Knight, 1997), and competitive aggressiveness. Many entrepreneurship studies postulate a strong EO–performance relationship, especially in hostile and/or technologically sophisticated environments (Walter et al., 2006), so service industries are somehow neglected. However, when those key players of a service firm remain free to act independently, to make key decisions, and to pursue opportunities it will benefit to an organization as market performance through individual service performance.

Entrepreneurship is often said to exist in a firm that “engages in product market innovation, undertakes somewhat risky ventures and is first to come up with “proactive” innovations, beating competitors to the punch” (Miller, 1983: 771). Prior theory and research acknowledge entrepreneurial orientation as an important constituent for organizational success (Lumpkin and Dess, 1996; 2001). Many authors argue that entrepreneurial behavior is vital for firms of all sizes to prosper in competitive environments (Covin and Slevin, 1988; Lumpkin and Dess, 1996; Miller, 1983; Zahra, 1993). On the other hand, based on empirical evidences, EO as a strategic orientation was not found to have a significant direct effect on desired organizational outcomes, such as sales growth, sales per employee, and profitability (Covin and Slevin, 1990; Dess et al., 1997). For instance, Atuahene-Gima and Ko (2001) argued that in the market-orientated firms, EO is very important to promote firm performance. These results support the general notion that the EO–performance relationship depends on the context in which it occurs, such as firm's organization structure, corporate culture, and/or environmental dynamism (Walter et al., 2006). Additionally these contrary results highlighted the importance of entrepreneurially oriented employees. Especially in service industries the main determinant of success is the autonomy, risk taking and proactiveness of its employees. When those key players remain free to act independently, to make key decisions, and to pursue opportunities it will benefit to an organization as market performance through individual service performance. So, entrepreneurial ambitions alone do not create value and should not be seen as the fundamental force for the sustainable prosperity and growth of a firm without its entrepreneurially oriented employees. Thus, when we take into consider that the positive performance outcomes in the service organizations are strongly related to its employees' individual service performance, our second hypothesis come as expressed below:

H2: Entrepreneurial orientation has positive effects on individual service performance.

In the literature it is suggested that to achieve superior individual service performance through customer orientation is needed to each employees had entrepreneurial spirit. Thus our last hypothesis is expressed below:

H3: The relation between customer orientation and individual service performance is mediated by entrepreneurial orientation.

3. Methodology

3.1. Measurement Instrument

In this study the constructs were measured using multi-items scales adapted from the literature. We used multi factorial customer orientation construct that was used in study of Berthon, Mac Hulbert and Pitt (2004). This construct consist of six dimensions and twenty four items; (X1) aspects of customers, (X2) aspects of products/services, (X3) aspects of internal operations, (X4) aspects of inward looking, (X5) aspects of competitors and (X6) aspects of employees. Entrepreneurial orientation scale is taken from Eren's (2006) study. This composite scale is consist of four dimensions and thirty one items; (X7) new business entrepreneurship dimension has five, (X8) innovativeness dimension has eleven, (X9) renew itself dimension has twelve and (X10) pro-activeness dimension has three items. As an independent variable (Y) individual service performance scale is adapted from Chien and Hung (2008) in regard of service requirements of banking sector. This scale has fourteen items.

These scales that were used for the first time in Turkish was translated by the authors, then two bilingual academics back-translated the instrument. Through interviews with various academics and banking sector employees, it is

questioned whether there is disorder or ambiguity of the expression. Any discrepancies were rewritten to be cleared and then back-translated once again (Brislin 1970). At the end the final shape was given to the questionnaire with using 5-point Likert-type scales ranging from (1) “strongly disagree” to (5) “strongly agree” and applied to frontline employees of the banks.

3.2. Sampling

The level of analysis of this study is limited to frontline employees of private banks, which expanded to the country. These employees, who called “customer service operators”, spent their time dealing directly with customers for transactions and/or responding to customer queries, problems and complaints. We take a look at the customer and entrepreneurial orientations – individual service performance link from the banks perspective.

In Turkey, 44 banks have been operating. 31 of 44 banks are deposit banks, and they expanded to 9798 local branches with 176.032 employees. According to the report of Turkish Banking Association 74% of the employees have undergraduate and 5,4% of them graduate degree, and 50,3% of them women (TBB, 2011). 9 of 31 deposit banks excluded from research because of they have less than 10 branches. Istanbul in Turkey is at the hearth of the banking sector. Thus, a structured questionnaire survey was conducted on the Istanbul branches of fourteen large deposit banks which gave permission to our research. Data was gathered from 346 frontline employees of these fourteen large banks.

After gathering the data, the basic features of the data were described with statistics to provide simple summaries about respondents. According to the descriptive analysis, our sample is a group of young (67,5%, 26-35 years) and educated (59,5%, undergraduate; 29,8%, graduate) people which are 51,1% of them working at least five year in their organizations. Thus, it is considered that this sampling will positively affect the accuracy of our research, due to their basic knowledge about the concepts of the research.

3.3. Scale Validity and Reliability

After gathering the data, the basic psychometric features of the data were described with statistics. First, all items and components are tested by comprehensive reliability analyses, and the entire scale reliability coefficient ($\alpha = .921$) has been determined a satisfactory level according to Nunnally (1978) and Nunnally and Bernstein (1994). It's found out that no items have exceeded alpha coefficient of the construct. Even there were some items which item-total correlation coefficients lower than 0,500 because of the satisfactory level of the alpha coefficient all items subjected to the principle component analysis (PCA).

In the PCA procedure Kaiser-Meyer-Olkin (KMO) and Bartlett's test results were examined. The results show that, data are suitable for the PCA, and the reliability and the validity of the construct is provided. Then, the principle factor analysis was applied to identify the components of the factors having eigenvalues greater than one. During the factor analysis, varimax rotation was applied with taking into account the generalization of the results. In the data reduction procedure, those variables having a factor load of 0.500 and above were taken into the account. This application maximizes the sum of the variances necessary for the factors matrix (Hair et al., 1998: 110). According to the PCA results three items from customer orientation scale, seven items from entrepreneurial orientation scale and six items from individual service performance scale was excluded because of not loaded under any dimension and low item-total correlation coefficients. During this dimension reduction process all items of the pro-activeness dimension of the entrepreneurial orientation factor are deleted. Thus, this dimension is excluded from scale.

Table 1. The Results of Principle Component Analysis

	Factor Loading		Cronbach α	KMO	Total variance explained
	Min.	Max.			
Customer Orientation			,829	,755	73,342
(X1) aspects of customers	,555	,740			
(X2) aspects of products/services	,792	,833			
(X3) aspects of internal operations	,583	,771			
(X4) aspects of inward looking	,783	,871			
(X5) aspects of competitors	,772	,848			
(X6) aspects of employees	,829	,904			
Entrepreneur Orientation			,919	,829	67,226
(X7) new business entrepreneurship	,746	,824			
(X8) innovativeness	,591	,823			
(X9) renew itself	,574	,787			
(Y) Individual Service Performance	,633	,841	,891	,858	70,373

Before examining the relationships among the factors in our research model, as one of the most important criteria in which we would evaluate the validity of the results, the data was examined to determine if it had normal distribution. For this purpose, the scale structure that was obtained with factor analysis was evaluated with the Kolmogorov-Smirnov test, and it was seen that t values of all of the variables were at the sufficient level for our sample ($t_{\min} = 3,356$; $p < 0.001$). These findings prove that the distribution of the data is statistically normal.

3.4. Analyses

This empirical study aims to explore the following topics: the level of customer and entrepreneurial orientations, and the effects of these orientations on the individual service performance on frontline employees of financial enterprises located on financial center of the Turkey. To reach these purposes, the obtained data from the questionnaires are analyzed through the SPSS statistical packaged software. To reveal the effects of customer and entrepreneurial orientations on individual service performance, factor analysis, reliability analysis, correlation and regression analyses are performed.

4. Findings

This study sought to examine the effects of customer and entrepreneurial orientations on individual service performance level. Based on the psychometric properties of the constructs it was determined that the measures were sufficient and could be employed in hypotheses. The test of the relationships among the concepts of the current research is started by correlation analysis. Results of correlation analysis revealed that most the dimensions in our research model are correlated with each other positively and significantly (Table 2).

Table 2. Results of Correlation Analysis

	X1	X2	X3	X4	X5	X6	X7	X8	X9	Y
X1	1									
X2	,328**	1								
X3	,294**	,319**	1							
X4	,087	,053	,545**	1						
X5	,165**	,181**	,124*	-,065	1					
X6	,197**	,081	-,056	,036	,331**	1				
X7	,085	,043	-,194**	-,264**	,393**	,188**	1			
X8	,180**	,075	,082	-,119*	,286**	-,038	,459**	1		
X9	,468**	,113*	,108*	,060	,278**	,215**	,272**	,365**	1	
Y	,145**	-,019	-,028	-,266**	,449**	,069	,442**	,571**	,434**	1
Mean	3,77	3,93	3,63	2,96	3,89	3,79	4,08	3,67	3,89	4,08
St.D.	,495	,413	,787	,964	,527	,783	,651	,724	,524	,594

* $p < 0,05$; ** $p < 0,01$

To reveal the direct relationships between main factors that suggested in the hypotheses linear regression analysis was used. According to the results of regression analyses for hypothesis H1, it is found out that “aspects of customers” and “aspects of competitors” dimensions of customer orientation have positively affect individual service

performance. On the other hand it is revealed that “aspects of products/services” and “aspects of inward looking” dimensions have negatively affect individual service performance. So, H1 hypothesis is partially supported.

Table 3. Results of the Regression Analysis for H1

	Beta	t	Sig.
(X1) aspects of customers	,128*	2,495	,013
(X2) aspects of products/services	-,141**	-2,752	,006
(X3) aspects of internal operations	,068	1,099	,273
(X4) aspects of inward looking	-,269***	-4,711	,000
(X5) aspects of competitors	,459***	9,057	,000
(X6) aspects of employees	-,097	-1,916	,056
Dependent variable	R ² : 28,9; F: 22,674; p<,000		
Individual Service Performance	*** p<0.001; ** p<0.01; * p<0.05		

Test of the H2 hypothesis is solved by a linear regression model. According to the results of regression analyses, it is found out that all dimensions of the entrepreneurial orientation have positively affect individuals’ service performance. So, H2 hypothesis is partially supported.

Table 4. Results of the Regression Analysis for H2

	Beta	t	Sig.
(X7) new business entrepreneurship	,196***	4,143	,000
(X8) innovativeness	,395***	8,085	,000
(X9) renew itself	,238***	5,269	,000
Dependent variable	R ² : 41,5; F: 79,834; p<,000		
Individual Service Performance	*** p<0.001; ** p<0.01; * p<0.05		

To evaluate the mediating effects, first of all independent and dependent variables have significantly and mutually correlated. Than in the regression model the relationship should be shaded or fully blocked. But the correlation between X3, X6 and Y were not significant. So, it is mean that there are no direct relationships between those variables, as well. Thus, there is no need to evaluate mediating effect of entrepreneurial orientation between those variables. Only the beta coefficient of X1 variable is slightly less than r coefficient. Thus, three regression models conducted for these relationships. According to the results of regression analyses three of the entrepreneurial orientation dimension has blocked the relationship between “aspects of customers” with individual service performance. Thus, one can say that entrepreneurial orientation has mediating the relationship between aspects of customers in customer orientation and individual service performance. Because of those findings H3 hypothesis is supported only for one dimensions of the customer orientation while the others rejected.

Table 5. Results of the Regression Analysis for H3

Table of Results of the Regression Analysis for the									
	Model 1			Model 2			Model 3		
	Beta	t	Sig.	Beta	t	Sig.	Beta	T	Sig.
(X1)	,105*	2,169	,031	,045	0,993	,322	- ,073	-1,317	,189
(X7)	,433***	8,899	,000						
(X8)				,563***	12,447	,000			
(X9)							,468***	8,476	,000
	R ² : 20,6; F: 43,893; p< ,000			R ² : 32,8; F: 82,886; p< ,000			R ² : 19,3; F: 40,428; p< ,000		
	*** p<0.001; ** p<0.01; * p<0.05								

5. Results and Discussion

There has been increased public and academic discussion of issues related to strategic orientations and their effects on business performance (eg. Hult et al. 2003; Olson et al. 2004). In this study, as an originality of this study, we focus on the effect of strategic orientations on the individual performance of frontline employees in banking industry. Thus,

this study is representing the results of a questionnaire survey on banking industry with the aim to reveal the relationships among customer orientation, entrepreneurial orientation and individual service performance.

Several managers change their management comprehension for creating a customer focused strategies. Our results show that customer orientation is an effective choice in customer and competitor aspects. Those aspects are found in a positive direct relationship with individual service performance while product/service and inward looking aspects have negative direct relationship. On the other hand we found that each components of the entrepreneurship orientation have positively affected on individual service performance. A significant result of this study is that the “internal operations” and “employees” aspects of customer orientation have no effects on individual service performance.

The findings of this study suggest that a frontline employee’s entrepreneurship orientations mediate the relationship between company customer orientation in aspects of customer and individual service performance of frontline employees. Thus, the influence of a company’s customer orientation on individual service performance acts through the entrepreneurship orientation of the frontline employees.

Despite the importance of banking industry no study has been found about strategic orientations in context of frontline employees of banking industry. But strategic orientation literature abounds of many evidences about the classifications and the positive effects of strategic orientations on business performance (e.g. Egan and Shipley, 1995; Pearce and Carland, 1996; Keskin et al., 2002; Alpan et al., 2005; Talukdar et al., 2005; Babakus et al., 2009; Yılmaz et al., 2009). But, much of what is written about strategic orientations focuses generally on manufacturing industries while underestimating the service industries such as banking, especially it’s a fully neglected area in Turkish context. However, there is no study on frontline employees of bank in regard of strategic orientations, some studies have been found on salesperson. Those prior studies suggest that both company and salesperson customer orientation has a positive effect on performance (Cross, et al., 2007). In regard of those studies findings of current study are appropriate with literature.

The findings of this study must be viewed in light of limitations. First, the survey and data collection were collected only frontline employees of large banks. It’s a limitation of the expansion of current result to the banking industry. Second, all of the measures for constructs under examination in this study were self-report by a single respondent. This means that the strength of some of the relationships as reported may be inflated due to common method variance. The size of the survey (10 different constructs and 69 items) made it difficult for a respondent to surmise the hypotheses being examined, and to “invent” responses that would reinforce this guess.

The results of this study have several implications for theory and future research. First, this empirical study gives evidences about appropriateness of customer orientation measurement instrument in context of Turkish business environment as mostly seen in Western businesses. Thus the present study continues and extends this line of inquiry by examining the effects of customer orientation on business performance in non-Western societies and cultures by taking Turkey as a case study. Second, future study needs to be directed toward a fuller examination of other possible relationships with the other strategic orientations, both mediating and moderating (Cross, et al., 2007; Mavondo et al., 2005). Additionally, as mentioned earlier, no research studies have systematically examined the effect of customer and entrepreneurship orientations on individual service performance in the banking industry, especially in Turkish context. Nevertheless, this is a small step to contribute research efforts in the banking industry in order to understand employees’ behaviors among the concepts of customer and entrepreneurship orientations.

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